Supreme Court U.S.
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No. 02-197

IN THE
# Supreme Court of the United States

MONSANTO COMPANY,

*Petitioner,*

v.

BAYER CROPSCIENCE, S.A.,

*Respondent.*

**ON PETITION FOR A WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE FEDERAL CIRCUIT**

## PETITIONER'S REPLY BRIEF

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## I. RESPONDENT'S BRIEF CONFIRMS THE IMPORTANCE OF THE QUESTION PRESENTED

Monsanto's petition (Pet. 6-9) showed that the question presented by this case is of immense commercial importance. Patent licensing is a $100-billion-a-year activity. If the Federal Circuit's decision stands, every licensee will have to obtain a consent or waiver from every person who previously assigned the invention or the patent, as thousands of employees do every year.[1]

Rather than answering Monsanto, Respondent asserts (Opp. 18) that this case relates only to sublicenses. But the Federal Circuit's holding that the bona fide purchaser ("BFP") defense applies only to transfers of titles, not licenses, clearly overruled *Heidelberg Harris, Inc. v. Loebach*, 145 F.3d 1454 (Fed. Cir. 1998), which recognized BFP protection for a patent licensee faced with claims of the original employee-inventor that he had been fraudulently induced to assign his invention to his employer.

Monsanto's petition also showed (Pet. 7-8) that every sublicensee would need waivers from patentholders even though they had explicitly authorized sublicensing without any restrictions, as RPA did here. Respondent's primary answer, that "a potential sublicensee can opt to take a license directly from the patent owner" (Opp. 19), concedes Monsanto's point. That approach would cripple sublicensing, because the patentholder could demand additional royalties or other compensation, effectively overriding the sublicense.

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[1] Respondent's veiled contention (Opp. 13-14) that Monsanto is not a BFP repeats an argument that RPA made and lost in the Federal Circuit. Pet. 7.

Respondent's other argument (Opp. 14, 19) – that sublicensees have recourse against the prime licensee for breach of an implied warranty – is based on an out-of-date treatise (2 DELLER'S WALKER ON PATENTS § 386 (1937)) that does not address the issue of this case. Instead, it merely states that "the licensor cannot repudiate the license on the ground that he had no authority to execute it." Moreover, RPA recognized in the district court, after it ruled that Monsanto was a BFP, that RPA could "get compensation from [its licensee] DeKalb for the loss that we have suffered as the result of Monsanto's" sublicense. A1054 (16). This approach best serves the policy underpinnings of the BFP rule because the defrauded party was in a position to detect fraud, whereas the BFP had no involvement in the transaction.

Respondent is correct that the BFP licensee issue was not litigated prior to *Heidelberg Harris*. As far as either party can determine, before that decision no one had ever *attempted* to invalidate a patent license or sublicense in the hands of a BFP. Black-letter law recognized that "[w]here a sublicensee has lived up to the terms of the license it is inequitable that his license should be revoked because the main licensee has failed to do the same, especially where the sublicensee had made extensive investments on the strength of his license." ELLIS ON PATENT LICENSES § 62, p. 63 (3d ed. 1958). The Federal Circuit's abrupt reversal of *Heidelberg Harris* effects a jarring change in the law with enormous consequences for patent licensing. This Court's review is essential.

## II. THE OPPOSITION HIGHLIGHTS THE CONFLICT BETWEEN THE FEDERAL CIRCUIT'S DECISION AND THE MODERN BFP RULE

Respondent says nothing about the BFP protection provided to intellectual property licensees under the Plant Variety Protection Act, 7 U.S.C. § 2531(d), and the

Copyright Act, 17 U.S.C. § 205.[2] Pet. 10. It is similarly silent as to Monsanto's demonstration that modern cases have recognized the BFP defense in a broad array of commercial transactions that do not involve the transfer of title demanded by the Federal Circuit in this case. Pet. 12-13. The Federal Circuit's 1998 decision in *Heidelberg Harris*, which discussed the BFP defense extensively, 145 F.3d at 1458-60, was in keeping with all modern BFP law in both the intellectual property and other commercial contexts.[3]

Respondent's attempt to square its position with modern BFP law by asserting that the rescission of DeKalb's license for fraud rendered it void *ab initio*, therefore necessarily terminating Monsanto's sublicense (Opp. 11-12, 21-22), repeats an argument that was rejected by the Federal Circuit. Pet. App. 5a (this case involves "the circumstances in which the interest in the patent held by the grantor [DeKalb] is voidable," not void *ab initio*). *See also Laborers' Pension Fund v. A&C Env'l, Inc.*, 301 F.3d 768, 779 (11th Cir. 2002) ("Fraud in the execution results in the agreement being void *ab initio*, whereas fraud in the inducement makes the transaction merely voidable.").

Respondent's attempt to answer Monsanto's showing that the UCC provides BFP protection for lessees and licensees is based principally upon a quote from the drafters of UCITA which states that "neither copyright nor patent

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[2] Respondent's reliance upon *Costello Publishing Co. v. Rotelle*, 670 F.2d 1035 (D.C. Cir. 1981), a case that it cited below which was understandably ignored by the Federal Circuit, gets it nowhere. That case merely held that a licensee cannot grant a sublicensee rights in violation of limitations placed in the license. *Id.* at 1044.

[3] Respondent's string cite of seven cases decided by this Court between 1836 and 1917 (Opp. 10), all of which involved real estate, does nothing to rebut Monsanto's showing that the modern BFP rule applies in numerous commercial transactions that do not involve the transfer of title.

[law] recognize concepts of protecting [a BFP] by giving that person greater rights than were authorized to be transferred." This unexceptional proposition bears no implications for this case because Monsanto asserts no "greater rights" than RPA explicitly authorized DeKalb to transfer to sublicensees.[4]

Finally, Respondent's distinction between transfers of goods and patent licenses (Opp. 16-17) cuts against the reasoning of the court of appeals in this case. For example, defrauded sellers of goods have no control over resale by the perpetrator of the fraud, yet have no rights against BFPs. By contrast, patent licensors are free to restrict sublicensing. Obviously, they should have no rights against a BFP when they have explicitly authorized sublicenses.

## III. RESPONDENT MISCONSTRUES SECTION 261

Monsanto's petition (Pet. 14-16) showed that 35 U.S.C. § 261, which provides only that a later BFP prevails over an earlier BFP who failed to record its assignment, does not answer the question in this case, as the Federal Circuit agreed in its first opinion but then inexplicably reversed itself. Respondent does not acknowledge – let alone answer – Monsanto's argument on this point.

Moreover, if section 261 were the measure of the BFP doctrine in patent law, as Respondent asserts and the Federal Circuit held in its second opinion, a party who received an assignment of title and timely recorded it at the PTO would not be protected as a BFP against the claim of someone – like the employee-inventor in *Heidelberg Harris* – that he had

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[4] *See* Opp. 5 where Respondent fully quotes UCITA, *but compare* Opp. 17 where it omits the "greater rights" qualification of the proposition, giving the misleading impression that the drafters of UCITA were broadly condemning BFP protection for patent and copyright licensees.

been fraudulently induced to assign his rights in the invention to his employer who then assigned the patent to someone else. The Federal Circuit got it exactly right in its first opinion when it acknowledged that "section 261 does not provide the answer" to that case or this one. Pet. App. 28a-29a. The opinion below – like Respondent – clearly got it wrong when it concluded, without explanation, that section 261 compelled the court to overrule *Heidelberg Harris* and reject Monsanto's BFP defense in this case.[5]

## IV. THE FEDERAL CIRCUIT IGNORED RELEVANT PRINCIPLES OF PREEMPTION

While denying that the Federal Circuit has preempted state law in this case (Opp. 21), Respondent acknowledges that "[t]he fraud claim was tried in the district court pursuant to North Carolina state law." Opp. 3 (*quoting Rhone Poulenc Agro, S.A. v. DeKalb Genetics Corp.*, 272 F.3d 1335, 1344 (Fed. Cir. 2001), *cert. pending*, No. 02-130). Thus, based on North Carolina law, RPA proved fraud and was awarded rescission of its license to DeKalb, along with $15 million in restitution and $50 million in punitive damages against DeKalb. 272 F.3d at 1340. The BFP issue arises directly out of the resolution of the state law fraud/rescission issue and in

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[5] Respondent's argument (Opp. 7-8) that section 261 was left unchanged in 1952 when the patent laws were significantly revised is entirely beside the point. Given the purpose of section 261 in settling disputes between conflicting assignees to the same patent, there was no reason to change the section as it applies in those situations. Section 261 has never addressed the BFP issue in the context in which it arises in modern commercial transactions. Far more significant is the overhauling of the common law in Articles 2 and 2a of the UCC that has now been adopted by 48 States (Pet. 11 n.4) and the 1971 amendments to the Copyright Act that recognized BFP protection for an intellectual property licensee, *see* p. 3, *supra*.

any commercial dispute would clearly be resolved under state BFP law.

Here, the federal district court, applying North Carolina law (including the state's UCC), held that Monsanto was a BFP and explained that "[t]he [BFP] rule preserves the stability of commercial transactions by promoting the free transferability and negotiability of property in commerce." Pet. App. 82a-83a. The Federal Circuit did not purport to reverse that decision by holding that the district court misapplied North Carolina law.[6] Instead, the court of appeals created the "law of the Federal Circuit" to do so and justified the federal law rule condemning the BFP defense for patent licenses by its erroneous reliance upon section 261. Pet. App. 18a.

Under established principles of preemption (*see* Pet. 17), state law governs patent licensing unless it "stands as an obstacle to the accomplishment and execution of the full purposes and objectives of Congress." *Aronson v. Quick Point Pencil Co.*, 440 U.S. 257, 262 (1979). The Federal Circuit made no effort whatsoever to analyze the "full purposes and objectives" of Congress in enacting section 261 (or any other provision of the Patent Act[7]) to decide whether

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[6] *See* Pet. App. 18a ("Even if the general common law extended . . . the [BFP] rule to holders of non-exclusive licenses, it would not be appropriate for us to extend such protection to non-exclusive licenses as a matter of federal common law."). Monsanto's petition explained (Pet. 18 n.8) that the Federal Circuit's only reference (Pet. App. 6a n.2) to North Carolina law was restricted to a footnote discussing a 1954 case that the State's UCC effectively overruled.

[7] The Federal Circuit properly ignored Respondent's reliance (Opp. 6) on 35 U.S.C. § 271(a) which provides that a person who practices a patented invention "without authority" infringes a patent. Licenses and sublicenses are creatures of state law and clearly constitute "authority" to practice a patented invention; section 271(a) says nothing about whether they survive in the hands of a BFP.

*they would justify displacement of the state law expressed in* the UCC.

Had the court of appeals even attempted such an analysis, it would have concluded that, because section 261 is silent as to the operation of BFP doctrine in the context of this case (or *Heidelberg Harris*), state law must control. *See Aerocon Engineering, Inc. v. Silicon Valley Bank*, 303 F.3d 1120, 1131 (9th Cir. 2002) (applying UCC because "[t]here is no conflict between the statutory provisions: the Copyright Act doesn't speak to security interests in unregistered copyrights, the U.C.C. does."). Moreover, had the Federal Circuit recognized its responsibilities to make the "law of the Federal Circuit" compatible with the UCC, as it has expressly stated it should in other recent cases (*see* Pet. 17), it would have understood that the modern commercial law expressed in the UCC and elsewhere condemns that court's destruction of the BFP defense in patent licensing.

## CONCLUSION

For the reasons stated above and in the petition, the petition for a writ of certiorari should be granted.

Respectfully submitted,

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